HOUSING MARKET OUTLOOK
Calgary CMA

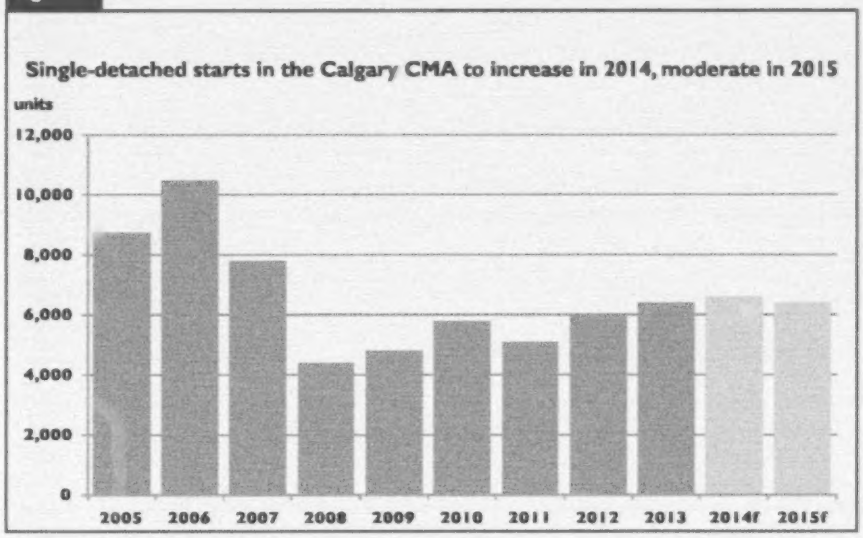
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights[1]

- Single-detached starts forecast[1] to rise in 2014, but moderate in 2015
- Multi-family starts will escalate in 2014 before slowing in 2015
- MLS®[2] residential price expected to increase in 2014 and 2015
- Net migration will support demand for rental units throughout the forecast period.

Figure 1



Source: CMHC, CMHC Forecast (f)

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 30, 2014.

[2] Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

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New Home Market: Higher Housing Starts Expected in 2014

Following a modest reduction to 12,584 units in 2013, total housing starts in the Calgary Census Metropolitan Area (CMA) are forecast to increase in 2014. While a higher number of single-detached starts are expected, multi-family starts will experience the most pronounced gain this year. Supported by elevated net migration, continued job creation, rising incomes, and low mortgage rates, total housing starts are forecast to increase 16 per cent to 14,600 units in 2014, reaching its highest level since 2006.

While new home construction will remain elevated, total housing starts are expected to moderate in 2015. The pace of employment growth and net migration are anticipated to be lower compared to previous years. In addition, the incentive for additional new construction due to relatively low active listings and new inventories will not be as strong, as supply levels for new and existing units will be higher in 2015. These factors will contribute to an eight per cent reduction in total housing starts next year.

The momentum in single-detached construction experienced last year has carried over into 2014. Job growth is expected to remain positive throughout the forecast period, while net migration will stay elevated but moderate from the record high of 2013. Single-detached starts in 2014 are forecast to increase three per cent to 6,600 units. In 2015, single-detached construction is expected to decline to 6,400 units. The increase in active listings, moderation in employment growth, and lower net migration, will contribute to a decrease in single-detached construction next year.

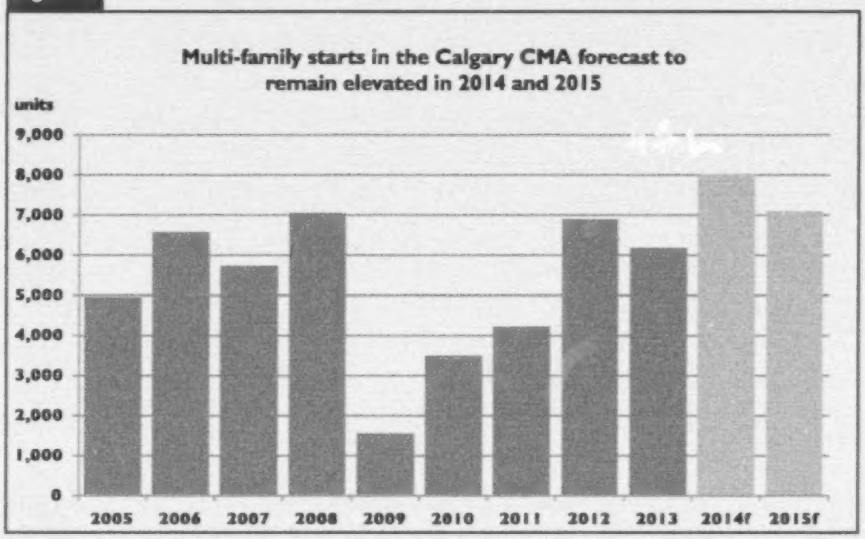
Strong upward movements in inventory, which include show homes and spec units, are not anticipated in the next two years. The number of single-detached spec units has remained relatively low compared to historical averages, but is up slightly from the previous year. In March 2014, single-detached spec homes totalled 137 units, down from the preceding five- and 10-year averages of 148 and 180 units, respectively. With demand for housing well supported and active listings relatively low, spec units are not anticipated to rise quickly. This will provide builders an incentive to start more homes in the near term. Show homes in March were also relatively low, down from the same month in 2013. The number of show homes in Calgary is not expected to increase throughout the forecast period. The upward pressure on inventories will be minimal as the number of units under construction was only slightly higher than the previous year. With single-detached starts forecast to post only a modest increase in 2014, units under construction should remain relatively stable.

Statistics Canada's New House Price Index (NHPI) rose 5.3 per cent in 2013, with another increase of 5.5 per cent forecast for 2014. Labour costs have moved higher as employers compete for skilled workers. The challenges to fill vacant positions are not expected to ease as the unemployment rate in the Calgary CMA is forecast to move lower in 2014 and 2015. Rising material costs will also contribute to the gain in new home prices. Demand for materials and labour will not only come from home builders in Calgary but also from commercial construction. The NHPI is forecast to rise 3.8 per cent in 2015, due to upward pressure on labour, material, and land costs.

The single-detached absorbed price in the Calgary CMA is forecast to average $610,000 in 2014, up four per cent from $588,179 in 2013. Equity gains, rising incomes, and low mortgage rates will support average price growth for new single-detached homes, as will the supply-side factors mentioned above. The pressure on new home prices is expected to carry over into 2015. However, average price growth is forecast to ease to two per cent next year as supply levels rise in the new home and resale market.

Multi-family starts, which include semi-detached, row, and apartment units, decreased 10 per cent in 2013 to 6,182 units, down from 6,880 units in 2012. However, a rebound is expected for 2014. By the end of this year, multi-family starts are forecast to total 8,000 units, up 29 per cent from 2013. This will represent the strongest performance since 1981. The decline in multi-family inventories will provide builders an incentive to increase production and help meet demand from first-time home buyers, those looking to downsize, and investors taking advantage of the low rental vacancy rate. Given low rental vacancies, additional rental construction is also expected. Multi-family construction is expected to moderate yet remain elevated at 7,100 units in 2015 as supply levels increase following the rise in construction this year. The decline will also be attributed to slower migration flows, reduced job creation, and increased

Figure 2



Source: CMHC, CMHC Forecast (f)

selection in the resale market.

Low inventories will provide a strong incentive for multi-family builders to increase construction in 2014. Multi-family inventory in March 2014 totalled 82 units, down from 501 units in March 2013 and their lowest level since September 2006. Multi-family absorptions in the first quarter have more than doubled the tally recorded during the same period in 2013. While a majority of these units were absorbed when projects finished construction, absorptions from inventory also increased where demand has come from buyers seeking a quick occupancy and those looking for lower priced units.

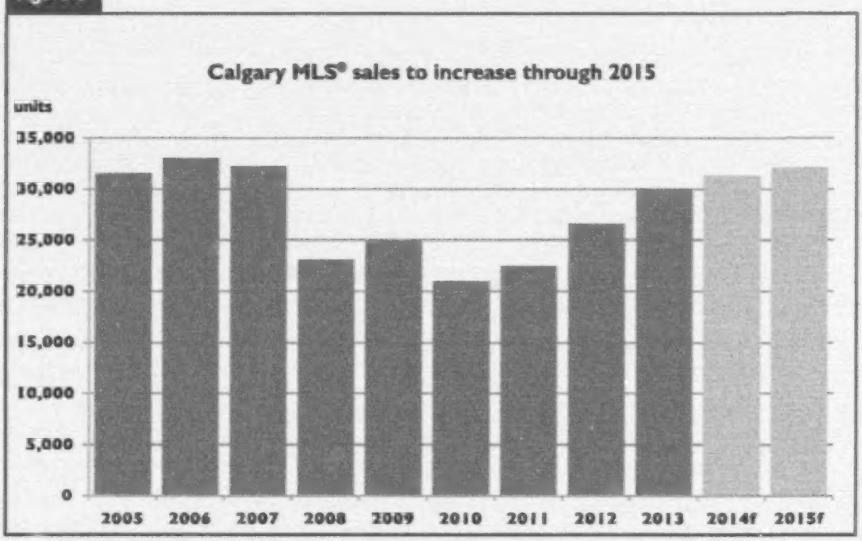
The rise in multi-family starts this year has contributed to a lift in the units under construction. In March, the number of multi-family units under construction was 8,760, up 14 per cent from the previous year. With a heightened number of multi-family units expected to break ground in 2014, the number of units underway will move higher before moderating. This will put some upward pressure on inventories and impact the pace of construction in 2015.

Existing Home Market: Low Supply Contributing to Rise in Prices

Sales in Calgary's existing home market rose 12 per cent in 2013 to 29,954 units, following a 19 per cent increase in 2012. Record net migration and the gain in employment over the last couple of years will contribute to higher resale transactions in 2014 and 2015. MLS® residential sales in 2014 are forecast to rise four per cent from the previous year, totalling 31,300 sales. Rising incomes and relatively low mortgage rates will continue to give buyers an opportunity to purchase a home, however the slower rate of employment growth and net migration will temper the pace of sales next year. MLS® residential sales are expected to reach 32,100 units in 2015, representing an increase of three per cent.

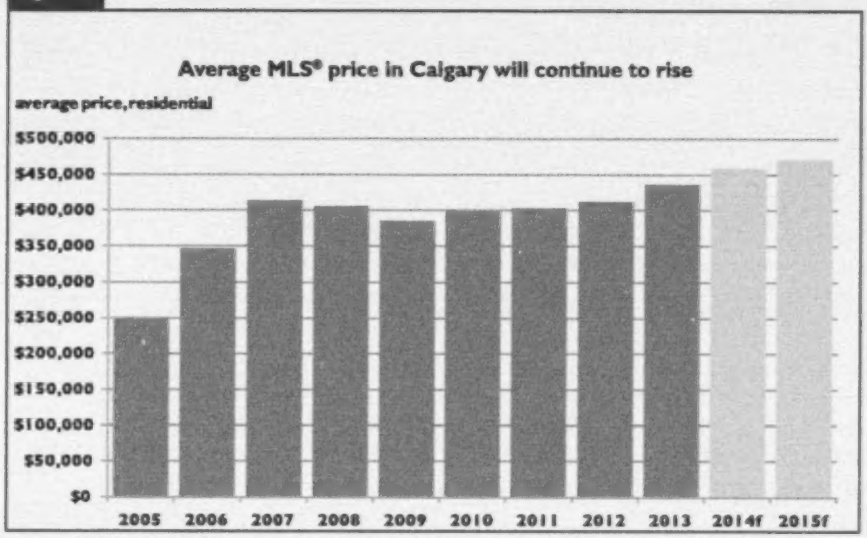
As was the case in 2012 and 2013, the selection of homes for prospective buyers has declined this year. In March, total residential active listings reported by the Calgary Real Estate Board (CREB) decreased 19 per cent from March 2013. The decline in active listings can be attributed to higher sales not being met with a commensurate rise in new listings. With less supply in the existing home

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

market, buyers have also been under more pressure to hasten purchasing decisions. Average days on market have moved from 42 days in March 2013 to 34 days in March 2014. Overall, buyers in 2014 can expect to see less resale supply with the monthly average of active listings forecast to be lower compared to the previous year. In 2015, active listings are anticipated to rise as new listings increase in response to equity gains from the previous two years and as growth in sales moderates.

New listings in the last couple of years have been held back by the lack of strong price growth, as the resale price from 2008 to 2012 increased an average rate of zero per cent per year. In 2011 and 2012, new listings declined on a year-over-year basis. It was not until 2013 when the average resale price increased six per cent from the previous year that new listings started to increase. Not only has the average price moved above the peak recorded in 2007, but is forecast to post additional gains in 2014 and 2015. As a result, more home owners will be enticed to list their homes for sale. In 2014, new listings are forecast to rise two per cent to 43,600 units, with another increase of three per cent in 2015.

Following a six per cent increase in 2013, the MLS® residential price is forecast to rise five per cent in 2014 to an average of $459,000. Relatively low active listings combined with strong demand for housing, supported by factors such as full-time job creation, will continue to push prices up. The sales-to-active listings ratio for total residential units, reported by CREB, has increased to an average of over 45 per cent in the first quarter of 2014, compared to 33 per cent during the same period in 2013. Under these conditions, the market will favour the seller more than the buyer. In 2015, prospective buyers will have more selection, alleviating some of the upward price pressure experienced in previous years. The average price in 2015 is therefore anticipated to increase three per cent to $472,000.

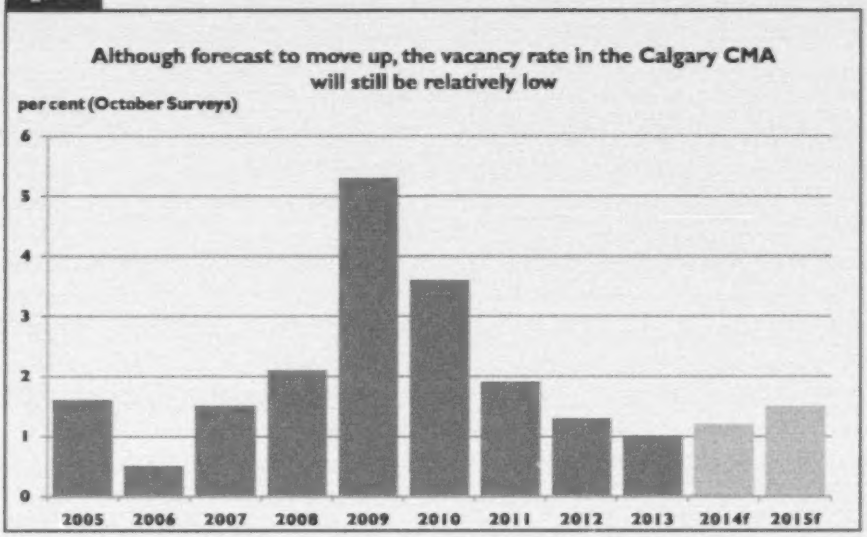
Rental Market: Vacancy Rate Forecast to Edge Higher but Still Remain Relatively Low

Following a record level in 2012, net migration climbed further to a new high in 2013. These migration flows have been a key factor supporting rental demand in Calgary. The apartment vacancy rate in October 2013 was one per cent, representing the fourth consecutive year that the vacancy rate declined. Calgary will once again experience an elevated level of net migration in 2014, albeit down from the record pace set last year. While rental demand is expected to remain robust, factors such as competition from the secondary rental market, newly completed rental buildings, and the movement of renters into entry level housing, will cause the vacancy rate to edge up in the purpose-built rental market. Thus, the apartment vacancy rate in October 2014 is forecast to increase to 1.2 per cent.

In October 2015, the vacancy rate is anticipated to move up to 1.5 per cent. Factors that have driven rental demand, such as employment growth and migration, will moderate compared to prior years yet remain relatively strong. Some tenants will also look to alternative rental options such as investor owned units, or move into homeownership. In addition, the completion of new rental projects will add to supply and thus contribute to the rise in the vacancy rate.

Upward pressure on rental rates is expected to continue as the vacancy rate is forecast to remain low. With steady demand for rental accommodations keeping turnover relatively low and helping fill vacant

Figure 5



Source: CMHC, CMHC Forecast (f)

units in a timely fashion, landlords will be in a position to raise rents. The two-bedroom rent is forecast to average $1,290 in October 2014, up from $1,224 in the same month a year earlier. The average rent will again move higher in 2015, however the increase will be more tempered compared to 2013 and 2014 as the vacancy rate will be slightly higher. In October 2015, the average two-bedroom rent is forecast to reach $1,330 per month.

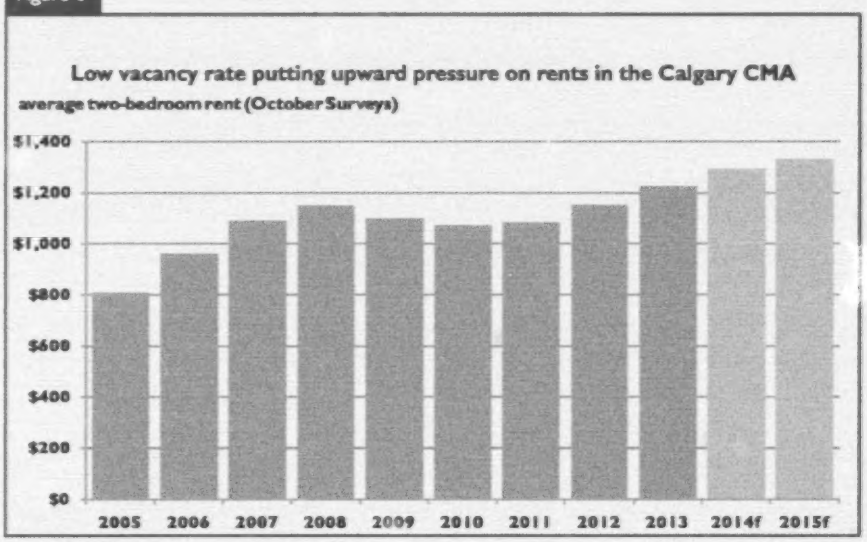
Aside from the purpose-built rental market, tenants will have access to other rental options. In CMHC's 2013 Rental Market Survey, 14,825 apartment condominium units were identified as rentals, up from 14,313 units in the previous year. In addition, over 30 per cent of units in CMHC's condominium universe were reported as rentals. The number of investor owned condominiums is likely to increase in 2014 and 2015 as apartment units finish construction and become available to renters.

Furthermore, a few hundred market rental units have been completed since the Fall 2013 Rental Market Survey, and as of March 2014, there were over 300 market rental units under construction.

Economic Trends: Elevated Net Migration to Continue Supporting Housing Demand

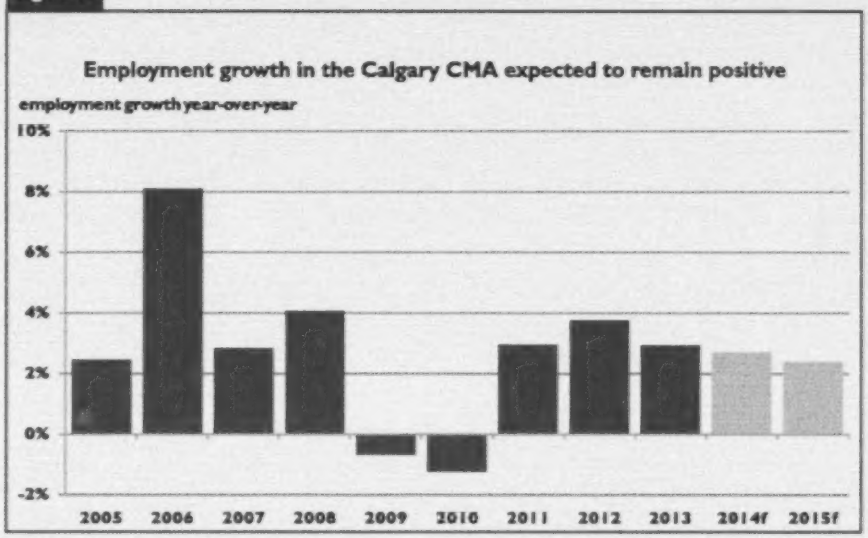
In 2014, average employment is forecast to increase 2.7 per cent in the Calgary CMA. Significant investments in the energy industry within and outside of the Calgary region will continue to play an important role in the local economy and support job creation. Several major projects are currently underway, with more projects planned in the upcoming years. Significant dollars have been earmarked for projects in health care and education as well as in other areas such as the commercial and residential sectors. These factors will not only contribute to job creation this year, but will also help expand payrolls next year and keep employment growth above the national average. Employment in 2015 is expected to rise 2.4 per cent, which will represent the fifth consecutive year of job growth.

Figure 6



Source: CMHC, CMHC Forecast (f)

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

The labour market in Calgary has provided opportunities for job seekers in other locations. The unemployment rate is expected to decline from 4.9 per cent in 2013 to 4.7 per cent 2014 and 4.6 per cent in 2015. In some cases, skilled labour remains difficult to find, resulting in some vacant positions going unfilled for an extended period of time. The overall demand for workers has also put some upward pressure on wages as employers compete for labour. The increase in wages and incomes will help cushion the impact of rising home prices, and support the demand for housing.

Net migration in the Calgary CMA reached another record level in 2013, with 45,168 migrants surpassing the previous record set in 2012. Favourable labour market conditions in Calgary and its relative strength compared to other regions in Canada has been a major driver behind the elevated pace of net migration over the last couple of years. While migration to Calgary is anticipated to remain robust over the forecast period, economic improvements in other regions will reduce Calgary's magnetic draw and temper the pace of new migrants. For 2014 and 2015, net migration is forecast to total 33,400 and 28,500, respectively.

Mortgage Rate Outlook

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.5 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards.
Employment	Employment is expected to increase in 2014 and 2015, supporting housing demand.
Income	Demand for labour will put upward pressure on incomes and wages, as employers compete for workers. The increase in income will be positive for prospective home buyers looking to purchase a home.
Population	Following record migration in 2013, population growth will slow somewhat in 2014 and 2015, yet will remain supportive of housing demand.
Resale Market	Supply in the resale market has declined, contributing to the rise in prices. This will help boost demand for new homes.
New Home Inventory	Inventory of single-detached and multi-family units has been relatively low and will accommodate an increase in new home construction.

Forecast Risks

This outlook is subject to some risks, including:

- Energy investment is a key economic driver in Calgary, which has spinoff benefits for other areas of the economy. Should the price for oil decline and remain low for an extended period of time, investments along with employment will also moderate, reducing demand for housing.
- Net migration may further increase if labour markets in other regions of the country do not improve at a rate comparable to Calgary. This would result in increased housing demand in 2014.
- Inventories for single-detached and multi-family units have been relatively low while the number of units under construction has increased. If demand weakens and a higher proportion of units under construction move into inventory when completed, new home starts will moderate.
- The average MLS® residential price may grow at a faster rate than expected if active listings remain relatively low longer than anticipated. This would leave buyers competing more for a reduced selection of homes on the market.
- MLS® residential sales may post stronger gains if employment increases more than anticipated. Conversely, if employment growth moves at a slower rate, sales may remain flat or decline.

Forecast Summary
Calgary CMA
Spring 2014

	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	5,084	5,961	6,402	6,600	3.1	6,400	-3.0
Multiples	4,208	6,880	6,182	8,000	29.4	7,100	-11.3
Starts - Total	9,292	12,841	12,584	14,600	16.0	13,500	-7.5
Average Price ($):							
Single-Detached	547,670	580,135	588,179	610,000	3.7	625,000	2.5
Median Price ($):							
Single-Detached	457,271	478,669	486,566	505,000	3.8	516,000	2.2
New Housing Price Index (% chg.)	-0.1	1.7	5.3	5.5	-	3.8	-
Resale Market							
MLS® Sales	22,466	26,634	29,954	31,300	4.5	32,100	2.6
MLS® New Listings	43,781	42,137	42,678	43,600	2.2	44,800	2.8
MLS® Active Listings	9,614	8,279	6,945	6,500	-6.4	7,100	9.2
MLS® Average Price ($)	402,851	412,315	437,036	459,000	5.0	472,000	2.8
Rental Market							
October Vacancy Rate (%)	1.9	1.3	1.0	1.2	-	1.5	-
Two-bedroom Average Rent (October) ($)	1,084	1,150	1,224	1,290	-	1,330	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	725,500	752,700	774,600	795,500	2.7	814,600	2.4
Employment Growth (%)	2.9	3.7	2.9	2.7	-	2.4	-
Unemployment rate (%)	5.8	4.7	4.9	4.7	-	4.6	-
Net Migration [1]	10,861	31,996	45,168	33,400	-26.1	28,500	-14.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
The forecasts included in this document are based on information available as of April 30, 2014.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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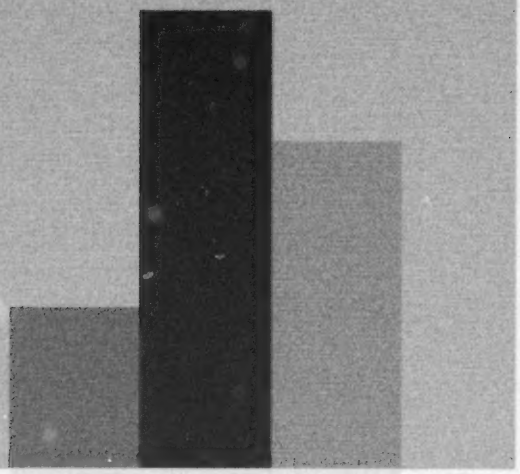

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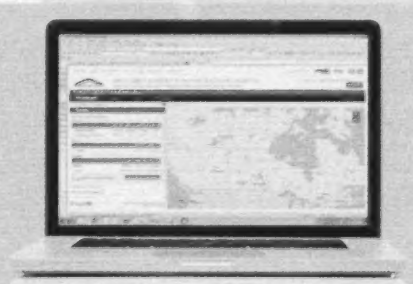

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